

CIACO NID 81 [REDACTED]

December 24, 1981

SPECIAL ANALYSIS

POLAND: Economic Outlook

[REDACTED]

The imposition of martial law has aggravated Poland's economic crisis and diminished the chances for regaining the workers' trust and Western aid--two of the key elements necessary for an economic recovery. Production in 1981 is down by 15 percent and the economy virtually bankrupt. The risk of default or moratorium on the country's private debt is increasingly likely. The possibilities of obtaining substantial assistance from the West or the East are poor. [REDACTED]

Prospects for economic revival now depend to a large extent on the workers' response to the crackdown. At this early stage, they probably will react by working even less than before. Many of them probably will have little to do because of shortages of raw materials and spare parts. [REDACTED]

The violence used by the regime to break up strikes has damaged any trust that labor had in the regime. Moreover, any spread of the limited sabotage of production facilities and capital equipment could affect production for years. [REDACTED]

Food Shortages

Maintaining the food supply is another major problem. Meat supplies in state stores are about 40 percent below the inadequate supply of last December mainly because farmers refuse to accept devalued currency. Supplies of other staples also are inadequate. [REDACTED]

Military food reserves probably are large enough for only a few weeks. Food imports from CEMA countries will have to increase even to bring food supplies up to the low levels of 1981. [REDACTED]

The Polish press reports that East Germany, Hungary, Bulgaria, Czechoslovakia, and Mongolia have promised to deliver soon food supplies worth at least \$150 million.

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The Soviets also have pledged \$350 million in relief shipments, some of which is to be in the form of food. The deliveries should improve the situation temporarily, but the government will still need the support of private farmers for any long-term improvement.

The party believes that the poor market supply situation has eroded potential public support of the military regime. The government has warned that unless the situation improves, compulsory deliveries may be introduced. If the regime takes such a step, some farmers might kill their livestock and destroy their crops.

Appeal to Nationalism

The government's most effective tactic may be to appeal to Polish nationalism, pointing out that refusal to cooperate by labor and farmers hurts the entire population. The Church has considerable influence with private farmers, and may be willing for humanitarian reasons to urge them to cooperate, thereby allowing the regime to avoid resorting to forced deliveries.

The Church also could support the regime out of fear that economic chaos would lead to Soviet intervention. At the same time, the Church could try to get some concessions in exchange for its willingness to play along. Pressure from within the party for a moderate course and the need for Western aid also could encourage concessions.

External Economic Ties

Although Polish officials have told Western diplomats that Warsaw wants to continue economic relations and to honor agreements with the West, the imposition of martial law has halted much commerce with the West. Commercial communications are cut off, the foreign trade bank reportedly is closed, possibly until January, and traffic with the West has been reduced to a trickle.

Even if the borders are reopened and communications restored soon, Warsaw's trade with the West would not recover for some time. Low production levels will depress exports, and lack of credit will hold down imports.

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Warsaw was unable to make \$350 million in interest payments due to Western banks on 14 December. [REDACTED]

Failure to reschedule private debt will deal a severe blow to Warsaw's efforts to meet its \$10 billion borrowing requirement in 1982. Poland now seems certain to declare a moratorium on at least part of its debt service in 1982. [REDACTED]

Poland's creditworthiness will begin to be restored only if the bankers are able to identify clear signs of economic recovery. [REDACTED]

The reduction in aid from Western governments will be most damaging to Poland. West European governments already had decided to cut their credits for next year, and probably will be even less forthcoming toward the military regime. [REDACTED]

Moscow has pledged to provide as much economic assistance as is needed. The willingness of the CEMA countries to help, however, will be severely constrained by their own economic problems and by the need to keep their populations well supplied. [REDACTED]

The USSR will find it particularly difficult to provide direct hard currency aid because it is running a large trade deficit and drew down its hard currency reserves dramatically in 1981. A good test of the Soviets' commitment will be whether they provide Poland the funds needed to complete rescheduling of private debt for 1981. [REDACTED]